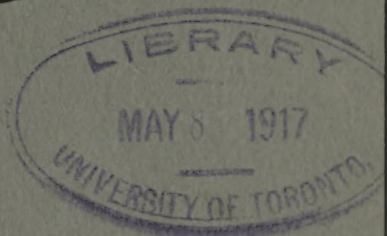


The Principles Involved in War Financing

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in New York**

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In the present war, there is no problem which will require more earnest and careful study than that of finance. On the correct solution of this problem depends not only the welfare of our people during the course of the conflict but also the welfare of generations to come who would be the greatest sufferers from unsound financial operations at the present time.

It now seems probable that this country will not be obliged to defend its soil against active foreign aggression. Therefore, while some government financing will need to be done almost immediately, we will have a reasonable time to work out a more comprehensive plan of co-operation with our Allies. We should not, therefore, repeat the mistakes which have been made by the nations of Europe in financing the war up to this time. I do not mention their mistakes in a critical spirit. Those responsible for financing in Europe and other countries have been the first to admit their errors, and when one considers the suddenness with which the war burst upon them and the unprecedented magnitude of the resultant problems, it is surprising that so high a standard has been set.

Mobilize the Facts

Now that national financing has become an American problem, a considerable number of people will be found who have formed definite conclusions as to the proper course for us to pursue. But I think it will be found that those who will have the final say as to our own course have as yet formed no such definite conclusions. Consequently, our first step should be the mobilization of the facts. In other words, I believe that we should take advantage of the reasonable time which good fortune has placed at our disposal to accumulate the best possible information as to

what has actually transpired in European financing, to review the fundamental principles which are involved in public finance and thus gradually to evolve a course of action which will prove best for the United States from every viewpoint.

Ultimate decisions to be sound must be in the hands of a few responsible men. But before those men arrive at their conclusion they must have available in convenient form, not only the facts, but the best opinions available both of students and of practical men, and they must be in a position to form their conclusions with reasonable deliberation. They must be able to avoid as far as possible snap judgments and conclusions arrived at under great pressure.

In meeting this situation we are fortunate in having in the country a few men who have been in Europe since the war began and who have been able to carry a mature experience to an observation of the situation as it actually existed abroad. The government should get the benefit of their advice and make sure that a course of action so vital to the interests of all the people is not finally determined upon without consultation with men who have been in the thick of the great financial events of the last three years.

Confer with European Financiers

In addition to the information now available, I believe that much good would be accomplished if two or three of our representative financiers were sent as a special commission to London to confer there with representatives of the allied governments.

Such men would be able to confer with European financiers from the point of view of the new situation which has recently been created by our actual participation in the war. I do not suggest that we must rely entirely on the allied governments to map out for us our course of national financing. But if we are to work in full co-operation with them we should as a first step have the fullest and most intimate knowledge of their financial views and plans. If we are to fight in the same cause we must stand together.

Before conferences of financiers are called or commissions sent abroad, an accurate summary should be

made, by the Treasury Department, or the Federal Reserve Board, of facts and figures covering the financing of the principal nations participating in the present war, together with pertinent facts and information that ought to be carefully in the minds of those who are called upon for advice in these matters.

There is an unfortunate tendency in this country to attempt to settle everything by conferences without adequate preparedness on the part of those who attend the conferences. The result is that much time is wasted in educating the conferees at the first two, three or four meetings in the fundamentals of the subjects under discussion, or in informing them of facts essential to a correct solution of the problems presented.

Theories Should Also Be Mobilized

I have referred to this first step in financing preparedness as a mobilization of facts. I do not neglect the necessity of a mobilization of theories. In general, however, we must stand or fall on the theories which have already been able to get themselves adopted. We are now face to face with stern realities and we must call upon the best men we have, trusting that they have already developed economic theories which will stand the test of war. I have confidence that if the best men we have are chosen and are given a reasonable time to put themselves in possession of the facts, a course of action will be taken which will meet the needs of the situation.

The government should take the lead in this matter, however, without delay, and make as careful an investigation into the question of finance as the Council of National Defense is making into the industrial situation. It should be carefully borne in mind that the Secretary of the Treasury is not represented on the Council of National Defense, and that the same energy which is being shown by the Council and the Advisory Committee of Business Men which are assisting it, has no bearing on what may be done in the direction of war financing. We now have time to make a thorough survey of the situation. If we wait until our expenses have amounted to many millions a day, and we are forced to rapid action, unquestionably many costly mistakes will be made.

I think I have said enough to indicate that I do not believe we are now in a position to pass any final judgment as to what the United States should do in a financial way to co-operate with her Allies in the present war. There are, however, certain fundamental principles which can be discussed.

What Proportion is Best Between Bonds and Taxes

Any one familiar with our national resources must realize that at best only a small percentage of the great cost of our part in the present war can be raised by taxation without seriously crippling our industries—without killing the goose that lays the golden eggs. The great questions for the people to answer are how much they can and will save now, and how much they desire to raise by bond issues.

To raise the whole amount needed by issues of bonds would be foolish. To raise too much by taxation would not only hamper our productive power and lessen our enthusiasm during the war, but also leave us in a cramped and unhealthy condition in facing the great commercial problems which will follow the war. Both taxation and bond issues must be made use of. The proper proportion is our national fiscal problem at this time.

This is a fundamental question. On its solution without violation of sound economic sense a great deal depends.

We should face the fact that we are called upon to pay for the neglect of past generations of unpreparedness. We should come forward now and meet that obligation and not be contented to pass it along, vastly increased, to our grandchildren. On the contrary, I believe that the money to cover a thorough preparedness program should be raised as far as possible by taxation.

Income Tax Law Should Be Amended

The mention of taxation brings up a number of issues which are out of place here. Whether or not we are involved in a long war, the question of taxation will be one of the outstanding subjects of consideration during the next ten years. For present purposes, however, I believe that if we are to do our part as a democracy and stand

forth in our proper light among the nations of the world, we must meet the present situation squarely and call upon every person to bear the burden of taxation in proportion to means and earning power. For instance, the present income tax which is borne by less than one-third of one per cent. of our population, is essentially undemocratic in its conception. The law should be amended so as to bring a greatly increased percentage of our people within its provisions. It is hardly to be expected that a person will have a full sense of responsibility for the welfare of his country unless he is called upon to contribute at least a small amount to its maintenance.

We Should Take a Large Part in the World War

I am omitting from this discussion any consideration of the soundness or unsoundness of the present tendencies with regard to the taxation of incomes. It is quite possible that we may in a few years think it wiser, as has often been suggested, to tax a man rather upon what he spends than upon what he earns. With regard to the situation which confronts us at the present time, I believe the correct course is clearly indicated. However our theories of taxation may develop in the future, we are face to face with an immediate problem which calls upon us for great sacrifices. We are bound to find that it is true now, as it always has been in the past and always will be in the future, that we cannot get something for nothing. If we hope to achieve a great result we must pay a great price either in blood or in treasure. Our immediate problem is to take our part in this world struggle not in a small way but in a great way. I believe without qualification that we should meet the debt which has been handed down to us by past generations and cancel it absolutely.

This suggestion involves the point which has been so freely discussed during the past few weeks, namely, that patriotism should take the place of interest in any loans which the government may put out or that the purchase of commodities required by the government should be at less than a fair market price. Such suggestions are born of confusion and may lead to disaster. It should be understood at the start that it is not inconsistent with patriotism

to urge that finance and business should be carried on even in war times on a financial or business basis.

Money should be given to the government or loaned to the government. If it is given, no question of a fair market rate arises. If it is loaned, it should be loaned at a fair rate. The same principle applies to commodities. In cases where costs are thoroughly known, there is no reason why the government should not purchase such supplies as it may need at cost plus a fair profit. Unfortunately cost is not accurately known by most producers. It is not impossible, however, to determine a fair market price, and if we are going into this war we must deal fairly with all concerned. Would it be fair for the government to purchase supplies at a price below the market rate while our Allies are obliged to purchase the same supplies at a price above the market rate?

Taxation and Patriotism

The question of patriotism is involved in the attitude of the people towards taxation. A patriotic people will not object to taxation. I believe the people of the United States today will come forward in this great emergency as fully as any people have ever come forward in such a situation. But I believe that poor and rich alike will prefer to give their money to the government under a thorough scheme of taxation and allow this money to be used by the government for the purchase of supplies at fair rates, and for the payment of interest on bonds at fair rates, rather than to be asked to sell their merchandise below the market and to subscribe to loans which are below the market.

For temporary purposes the United States Government can borrow on short term notes any reasonable amount that it may desire at a very low rate. When it comes to long term bonds, I believe that they should be put on a basis of fair return. The American government can afford to pay a fair price for what it gets. In fact the United States Government cannot afford not to pay a fair price. Long term bonds should be put on a basis which will invite subscriptions from all the people at the outset. Large institutions should not be called upon to

strain their distributing machinery in order to place bonds which are really not on a fair basis and consequently not on a sound basis.

More than this. Not only is it undemocratic to expect the large financial institutions of the country to undertake to place long term bonds at less than a fair rate of interest, but it is at best a temporary expedient. High pressure methods may succeed in bringing about the distribution of a comparatively small amount of bonds. But high pressure methods will not bring about anything like a permanent scheme of national financing. In the end the people and not the banks must take up the bonds, the banks giving their services where they are needed.

Taxation Will Reduce Extravagance

It will undoubtedly be suggested that taxation imposes a burden upon the people which they ought not to be called upon to undertake at such a time. Personally I believe that if the American people are to go into this war as an aroused and patriotic nation they have the means on hand to avoid any unnecessary burden from taxation. I mean that by a reduction of the extravagance which is so widely prevalent today, and by the adoption of a reasonable policy of thrift and economy, enough money would be saved to produce a substantial part of the money the government needs in this emergency. One of the most vital steps that can be taken toward a thorough financial preparedness both during the war and in the important period of upbuilding which must follow, is the training of the national mind towards thrift and an elimination of the lavishness which has characterized the people of this country, both rich and poor, during the last few generations. Our standard of living is unnecessarily high. This fact is serious in itself, but when it is combined with an entire absence of that national sense of thrift which has been the backbone of French economic strength for generations, we are confronted with a very serious obstacle towards a permanent position in world finance.

With regard to the specific rate at which long-term bonds should be issued by the government, it is difficult at this time to be definite. It may be said, however, that any bonds which are put out should be accompanied by a con-

version privilege. That is, it should be provided that those who come forward in answer to the first call which is made by the government and offer their capital to take up the initial issue of long term bonds should have the privilege of turning in these bonds at par in exchange for any subsequent issues which may be offered at a higher rate of interest. Any such bonds should be free of taxation and should be in denominations running as low as \$100 and possibly as low as \$10, if convenient methods of handling them can be worked out. It should be emphasized again that while any specific suggestions as to interest rate must depend on a careful study of the facts, and a knowledge of the extent to which national financing will go, at the same time, it can be said as a general principle that such bonds should be put forth at a fair rate of interest which will appeal to all the people of the country as a sound, permanent investment.

Meet the Situation Squarely

In conclusion I will say that I believe this country will meet any contingencies that may arise. We could be better prepared, but at the present time we must look forward and not backward. Now that we are face to face with the situation we should not waste any further time. If we will start immediately we can meet the situation squarely. We are in a position of great financial strength, unprecedented in our history. We hold a record amount of gold which is the basis for any extension of credit we may find it possible to make to our Allies. If we will co-ordinate the strength we have and act only after a careful examination of the facts, we can be reasonably confident that while the future will demand sacrifices as yet unrealized, we will none the less be able to emerge from the situation having done our part in a way to give new lustre to the name of democracy.

